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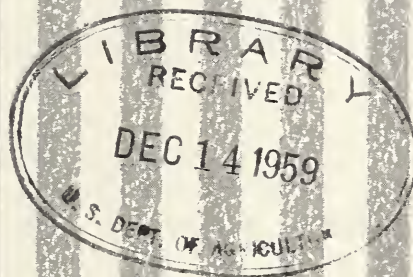
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Prospects for Foreign Trade in



TOBACCO

Foreign Agricultural Service
UNITED STATES DEPARTMENT OF AGRICULTURE
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PROSPECTS FOR FOREIGN TRADE IN TOBACCO

SUMMARY

U. S. tobacco has been losing its position in export markets since 1949, and 1958 was no exception. At 482 million pounds (export weight), U. S. exports were the lowest since 1954 and fifth lowest since the end of World War II.

In 1959, the decline is expected to be slowed by increasing gold and dollar reserves in Western Europe, principal market for U. S. tobacco, and by growing world demand for light-type cigarettes, made mainly from flue-cured and Burley, tobaccos in which the United States specializes.

Over the next decade, rising foreign production, barriers to the free movement of trade, and the price of U. S. tobacco are likely to preclude any increase in U. S. tobacco exports. In fact, they are more likely to contribute to a further decrease, despite steadily increasing tobacco consumption in foreign markets. Beyond that, tobacco consumption abroad may rise enough to bring total demand up to a level that will help raise U. S. exports on an absolute basis. But the U. S. share of the world trade is expected to go on declining.

Last year that share was 33 percent compared with 34 percent in 1957, 36 percent in 1956, 38 percent in 1950-54, and 43 percent in 1947-51.

International trade in tobacco dipped slightly in 1958 from its long-term upward trend, but the dip was caused by a slight drawdown in the level of stocks rather than by conditions that presage further weakening. Free World exports were 1.44 billion pounds compared with 1.46 billion in 1957.

Soviet Bloc countries are producing and exporting increasing quantities of tobacco, particularly Bulgaria and Communist China. Most of this tobacco moves within the Bloc countries, but more and more is being shipped outside, especially to Western Europe.

Rising world consumption has been accompanied by continued popularity of filter-tip cigarettes, especially in North America and Western Europe; and recently demand for cigars has risen in the United States, Canada, and Western Europe. In the United States, the rise in demand for cigarillos has been sharp, and this is expected to continue to spread in North America and move on to Western Europe.

World production of leaf tobacco has been following a long-term upward trend, with most of the rise in foreign countries. Increases have come at an especially rapid rate since about 1949, but were interrupted in 1958, when production was 8,269 million pounds compared with 8,624 million in 1957. The trend toward light tobaccos (flue-cured, Burley, oriental, and Maryland), which has been important since World War II, continues. Last year, production dropped in Greece, Yugoslavia, Turkey, and India, but this was offset by higher production of flue-cured in the United States. Outturn there was 100 million pounds above the 1957 level, but still the second smallest crop since 1943.

To some extent, the rapid increase in production of competing tobaccos was encouraged by the U. S. price support and acreage control program for tobacco. This program stabilized to a considerable degree the world prices for tobacco, not only for U. S. tobaccos but also for competing growths. Foreign producers took advantage of this stability to increase production. Many of them had still another--and earlier--encouragement, however. That was the United Kingdom preferential tariff on Commonwealth production, put into effect before the United States had a price support program. It is in the British Commonwealth areas that the largest increase in competitive foreign production has taken place.

Other measures adopted by foreign governments, such as self-sufficiency programs and high guaranteed prices, have also figured prominently in expanding foreign production, and would have done so regardless of U. S. policies.

TABLE 1.--Flue-cured tobacco: Free World production by areas and U. S. share, averages 1935-39 and 1947-51; annual 1952-58

(Farm-sales-weight)

Country	Average		1952	1953	1954	1955	1956	1957	1958
	1935-39	1947-51							
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
United States..	864	1,246	1,365	1,272	1,314	1,483	1,423	975	1,078
Foreign:									
Canada.....	55	112	132	132	173	118	149	149	161
India.....	27	65	75	111	130	128	139	132	110
Rhodesia and Nyasaland....	28	91	112	119	133	133	178	149	156
All others....	133	248	307	369	439	512	579	595	645
Total Foreign	243	516	626	731	875	891	1,045	1,025	1,072
Total Free World.....	1,107	1,762	1,991	2,003	2,189	2,374	2,468	2,000	2,150
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
U.S. percent of world.....	78	71	69	64	60	63	58	49	50

Also, there has been a high degree of planning and participation by foreign governments in encouraging exports of their own tobaccos and keeping imports from the United States to a minimum. These include dollar allocations, preferential import duties, bilateral trading agreements, mixing regulations favoring use of domestic leaf, licensing arrangements, and monopoly control of tobacco import trade. These restrictions and trade barriers do not permit U. S. tobaccos to compete freely for markets in many countries.

An added discouragement to U. S. tobacco exports in the years ahead is the high import duty proposed on tobacco by the recently established European Economic Community, better known as the Common Market. This duty on imports of unmanufactured tobacco from the United States and other nonmember countries is a proposed 30 percent ad valorem. In addition, tobacco grown in Italy, Algeria, and the associated overseas territories (mostly French and Belgian areas of Africa) eventually will enter Common Market countries on a duty-free basis. Tobacco from these areas will be available at a lower price in comparison with U. S. leaf than in the past.

WORLD PRODUCTION

Despite the rising long-term trend in world tobacco production, the level dropped in 1958 for the second consecutive year:

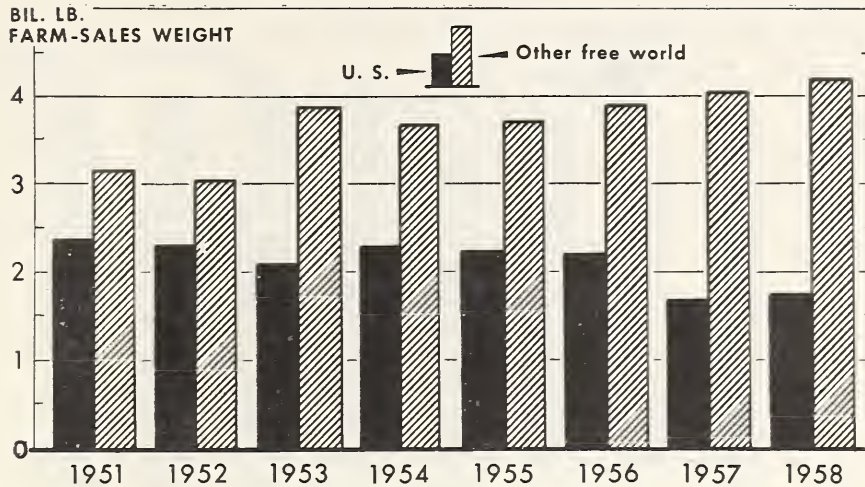
Mil. lbs.

1958	8,269
1957	8,624
1956	8,678

Most of the decrease was in Greece, Turkey, Yugoslavia, and India. Production in the United States in 1958--1,758 million pounds--was about 90 million pounds larger than the 1957 crop, but was, nevertheless, the second smallest in 15 years. Average yield per acre in the United States was the highest of record, and the United States continued as the world's largest producer.

The strong efforts that have been made in many foreign countries during the past decade to increase production of flue-cured tobacco have had marked success. In 1958, for example, foreign Free World production was 340 percent above the 1935-39 average. U. S. production, on the other hand, was 25 percent above that average. This has been the decade during which the United States has been reducing output of this tobacco which makes up 80-85 percent of its tobacco trade. Most of the increase has occurred in the Federation of Rhodesia and Nyasaland, Canada, India, Brazil, Mainland China, Japan, the Philippines, Pakistan, and the Union of South Africa. Now, other countries are trying to increase their flue-cured production--Australia, Belgian Congo, Ghana, Nigeria, and Mozambique, among others.

U. S. Tobacco Production Drops As Foreign Output Gains



For individual countries, the picture is particularly striking. In Rhodesia-Nyasaland, the principal competitor of the United States in flue-cured export trade, production of this kind of tobacco averaged only 28 million pounds in 1935-39, but rose to an average of 91 million pounds in 1947-51, and to 156 million in 1958. Other competitors, such as Canada and India, have shown tremendous increases in production over the past two decades. The large preferential tariff in the United Kingdom, which is about 21.5 cents per pound lower on British Commonwealth tobaccos than on tobaccos from other sources, is a major factor in the expansion in these areas. This is also stimulated by a requirement that no United Kingdom manufacturer can purchase more than 61 percent of his supplies from the dollar area.

This preferential system, together with long-term purchase agreements (between Rhodesia and Nyasaland on the one hand and the United Kingdom and Australia on the other hand) not only permits the producing areas to increase their sales in the other Commonwealth countries, but enables them to increase their sales outside the Commonwealth. Because of the preferential tariff, the Commonwealth buyers pay much higher prices (grade for grade) for Commonwealth tobaccos than they would if there were no preferential tariff. As a result, Commonwealth producers get higher prices and incomes, which in turn greatly stimulate production.

Production of oriental (aromatic) tobacco has also risen rapidly--in Turkey, Greece, Yugoslavia, and Bulgaria. These light tobaccos are sold mainly in Europe and the United States in exchange for manufactured commodities. Turkey's production rose from 128 million pounds in 1935-39 to 194 million in 1947-51 and further to 241 million in 1958. Greece's production increased 75 percent between 1935-39 and 1957. Yugoslavia's production of oriental and semi-oriental rose from an average of 33 million pounds in 1935-39 to an average of 45 million pounds in 1950-54, and further to 128 million in 1957.

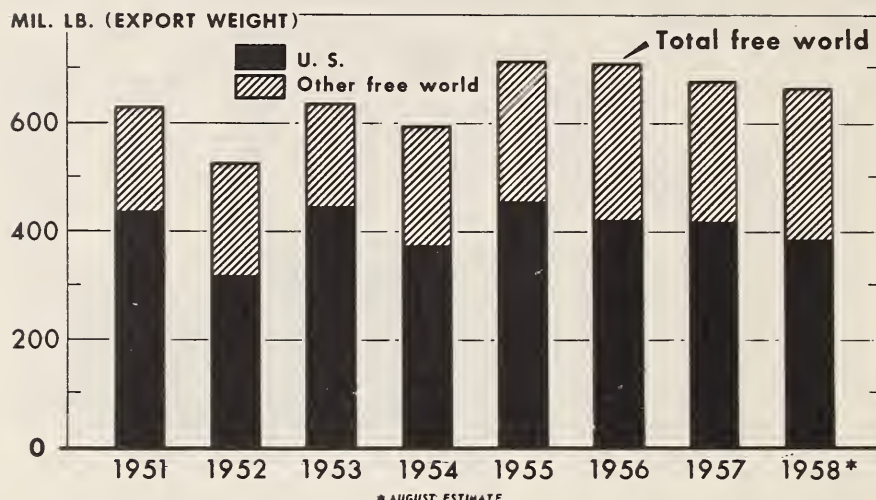
The most recent spurt in foreign production has been in the Burley type. There have been marked recent increases in Canada, Central America, Cuba, Western Europe, Morocco, Nyasaland, Belgian Congo, and Japan. Non-U. S. production rose from an average of 55 million pounds in 1947-51 to 116 million pounds in 1958, an increase of 110 percent.

WORLD EXPORTS

Total Free World exports rose about 26 percent between 1947-51 and 1958--from 1.14 billion pounds to approximately 1.44 billion. At the same time, the absolute level of U. S. exports declined slightly, and the U. S. share of the trade decreased--from 43 percent in 1947-51 to an all-time low of 33 percent in 1958.

Competition for U. S. flue-cured and Burley tobaccos in foreign markets has been strengthened by the increases in production of these tobaccos in many other countries. It has also gained

U. S. Losing World Markets For Flue-Cured Tobacco



strength from the rapid expansion in production of the other light types, such as oriental and semi-oriental, which compete both directly and indirectly with U. S. cigarette tobaccos. Six of the eight largest tobacco exporters ship light-type tobaccos--Bulgaria, Federation of Rhodesias and Nyasaland, Greece, India, Turkey, and the United States. Only Cuba and Brazil supply dark and cigar types.

The superior quality of U. S. tobaccos is highly important, but is not sufficient to prevent the declining U. S. share of world trade.

TABLE 2.--Unmanufactured tobacco: U.S. exports by types, averages
1935-39 and 1947-51; annual 1954-58

(Export weight)							
Type	Average		1954	1955	1956	1957	1958 ¹
	1935-39	1947-51					
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
Flue-cured.....	312.9	388.1	374.8	456.5	420.4	417.7	398.7
Burley.....	10.6	32.9	29.6	31.3	29.2	20.5	28.8
Kentucky-Tenn. fire-cured.....	49.0	24.6	20.9	21.4	24.2	22.0	19.7
Virginia fire-cured ²	9.0	6.0	4.0	4.4	4.4	5.3	4.6
Maryland.....	5.4	7.3	8.7	8.4	12.1	13.5	11.9
Green River.....	3.0	1.7	2.1	1.8	1.3	1.6	1.2
One Sucker.....	1.0	3.1	.9	1.7	2.4	2.6	.9
Black Fat, etc.....	8.9	4.7	4.5	5.3	4.6	4.5	4.9
Cigar Leaf:							
Wrapper.....	--	--	3.4	4.1	3.9	4.5	4.7
Binder.....	--	--	1.7	1.7	3.1	3.9	2.0
Filler.....	--	--	.2	.2	.8	.1	.6
Total cigar leaf.....	1.3	9.8	5.3	6.0	7.8	8.5	7.3
Perique.....	.1	.1	.1	.1	.1	.1	.1
Trimnings, stems and scrap.....	19.6	8.1	2.7	3.3	3.9	4.7	4.2
Total.....	420.8	486.4	453.6	540.2	510.4	501.0	482.3

¹Preliminary. ²Includes Virginia sun-cured.

TABLE 3.--Unmanufactured tobacco: Free World exports, averages 1935-39 and 1947-51; annual 1954-57¹

Country	(Export weight)		1954	1955	1956 ²	1957 ²
	Average					
	1935-39	1947-51				
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
United States.....	421	486	454	540	510	501
Federation of Rhodesia and Nyasaland.....	33	98	132	124	165	139
India ³	44	75	74	99	93	85
Canada.....	16	23	32	48	30	37
Greece.....	98	53	116	121	107	149
Turkey.....	76	124	142	132	134	191
Indonesia.....	100	16	43	28	25	30
Dominican Republic.....	14	35	27	29	30	26
Philippines, Republic of.....	37	10	22	16	23	21
Brazil.....	71	68	62	60	67	62
Cuba.....	28	34	42	48	47	55
All others.....	98	115	144	153	170	163
Total.....	1,036	1,137	1,290	1,398	1,401	1,459
Percent U.S.....	40.6	42.7	35.2	38.6	36.4	34.3

¹Excludes exports of Communist China and countries now in the Soviet Bloc. ²Preliminary.

³Fiscal year beginning Apr. 1 of year shown.

U. S. exports in 1958 decreased to about 482 million pounds (export weight) compared with 501 million in 1957, 510 million in 1956, and 540 million in 1955. They were slightly above the 1950-54 average of 473 million, but still the lowest since 1954 and fifth lowest since the end of World War II.

The impact of increased tobacco availabilities abroad on foreign demand for U. S. tobacco can best be illustrated by the trend in usings of all tobacco in the most important market area--Western Europe.

In recent years, about 75 percent of U. S. exports of unmanufactured tobacco have moved to 15 Western European countries; and the other 25 percent to the remaining countries of the world.

Since World War II, there has been a loss of about 60 million pounds of U. S. tobacco exports to the United Kingdom and France. This has been more than offset by gains in exports to West Germany, the Netherlands, Belgium, Switzerland, Ireland, Denmark, Austria, Spain, Italy, and Finland. Factory usings, however, of U. S. leaf in Western Europe, during the past 2 years remained at about the level of 1950-51.

In 1957, for example the level of factory use of U. S. leaf, at an estimated 357 million pounds, was about the same as in 1950 despite an overall increase of 200 million pounds in the total tobacco utilization during this period. This increase has been met by greater production of leaf tobacco within the individual countries and by larger imports from non-U. S. sources, including Greece, Turkey, Rhodesia-Nyasaland, India, and Canada.

The U. S. share in total factory utilization also declined--from 37 percent in 1950 to 30 percent in 1957; its share in total use of imported leaf declined from 49 to 41 percent during the same period. In other words, if the United States had enjoyed in 1957 the same relative position in Western Europe that it held in 1950, the area's use of its tobacco last year would have been 432 million pounds instead of the 357 million actually consumed. This is a substantial loss of potential over a relatively short period of years.

TABLE 4.--Unmanufactured tobacco: Estimated consumption in West Europe¹ 1950-57

(Processing weight)

Year	Total	Domestic leaf	Imported leaf			U.S. share	
			Total	United States	Other	Total	Imported
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Percent	Percent
1950.....	985	247	738	360	378	36.5	48.8
1951.....	1,050	287	763	356	407	33.9	46.7
1952.....	1,032	282	750	345	405	33.4	46.0
1953.....	1,073	300	773	331	442	30.8	42.8
1954.....	1,131	315	816	335	481	29.6	41.1
1955.....	1,147	311	836	348	488	30.3	41.6
1956.....	1,162	301	861	358	503	30.8	41.6
1957.....	1,183	311	872	357	515	30.2	40.9

¹Excludes Greece and Yugoslavia.

TRADE BARRIERS

In practically every country of the world, substantial revenues have long been derived from tobacco duties or excise taxes or both. Most countries attempt to maintain the duties and excise taxes at levels which provide maximum revenue returns.

Import duties are especially important to countries that import practically all their leaf tobacco, and excises are more important to countries whose local leaf tobacco production supplies a considerable proportion of manufacturers' requirements. But sometimes a combination of import duties and excises is used.

When duties and excises are excessively high, as they are in many countries of the world, they place a brake on consumption of tobacco products, and so limit the world market for leaf tobacco.

More restrictive to U. S. trade, however, have been other barriers set up by foreign governments in the past 40 years. These barriers have taken various forms. They include preferential import duties, bilateral trade agreements, mixing regulations, licensing, and foreign exchange allocations.

Tariff preferences, such as those in the United Kingdom on British Commonwealth tobaccos, in Australia for Rhodesian tobaccos, and in Portugal on leaf grown in Portuguese overseas territories, encourage production and imports from those areas enjoying the preferences. France has long had a stringent self-sufficiency program through which production was increased in France, Algeria, Madagascar, and the other overseas territories.

Many countries have bilateral trade agreements covering imports of specified amounts or value of tobacco from certain countries (usually in exchange for exports of manufactured goods). With the exception of that imported by the United States, nearly all of the tobacco exported by Turkey and Greece moves under bilateral trade arrangements with tobacco-importing countries. About two thirds of exports from the Federation of Rhodesia and Nyasaland moves under bilateral agreements, mainly to the United Kingdom, Australia, and France. These tend to exclude U. S. leaf from this portion of the market regardless of quality or price.

Australia has a mixing regulation which discourages imports by reducing the import duty to a manufacturer who uses more than the specified minimum percentage of domestic leaf in tobacco products.

The German Federal Republic has a lower excise tax, especially on pipe tobacco, favoring the use of high percentages of domestic tobacco.

The Republic of the Philippines has a law which prohibits the importation of unmanufactured tobacco, unless a government board certifies that domestic supplies are inadequate. This is done on the basis of the absolute quantity of domestic leaf available without regard to quality, price, or consumer demand.

In other countries through various devices, such as exchange allocations, licensing arrangements, and tobacco monopolies, imports of tobacco are shifted away from dollar areas to areas with which there is a policy of encouraging trade.

Tobacco monopolies are in effect in many countries. There, most phases of the tobacco industry are controlled by a governmental or quasi-governmental agency. The volume and kind of tobacco products manufactured, and the type of leaf used in their manufacture, are established by the government. The government in a monopoly country is in a position to direct consumers' tastes toward certain domestic and imported tobaccos, without regard to preferences or the traditional manufacturing and trade pattern. Countries in the Free World having monopoly control of tobacco include the following:

<u>Country</u>	<u>Type</u>	<u>Country</u>	<u>Type</u>
Austria	Government	Korea	Leased
Formosa	Government	Peru	Leased
France	Government	Portugal	Leased
Morocco	Leased	Spain	Leased
Haiti	Leased	Sweden	Government
Iran	Leased	Syria & Lebanon	Leased
Iraq	Leased	Thailand	Government
Italy	Leased	Tunisia	Government
Japan	Leased	Turkey	Government

The Common Market in Europe is the most recent development abroad to affect U. S. to-bacco marketings. It will place imports of tobacco from the United States in a much more difficult competitive position as soon as the common external tariff of 30 percent ad valorem, which is proposed, becomes fully effective in 12-15 years. As proposed under the terms of the Treaty of Rome establishing the Common Market, tobacco grown in Italy, France, Germany, Belgium, Algeria, and the associated overseas territories will enter other Common Market countries duty-free. Tobacco from these producing countries, will, therefore, be available at a lower price in comparison with U. S. leaf than in the past.

Barriers Imposed by Importing Countries

Bilateral trade agreements:

Austria has bilateral trade agreements with Bulgaria, Greece, India, Italy, Indonesia, and Yugoslavia which provide for imports of a specified quantity or value of tobacco.

Ceylon's trade agreement with India provides that it will purchase tobacco from India for manufacturing cigarettes and that India will purchase from Ceylon 2.7 million pounds of tobacco over a 4-year period at a concessional import duty rate.

Italy's bilateral agreements with Greece and Turkey encourage imports of tobacco from these countries.

Portugal has an agreement with Greece, in effect since 1949, which provides for the purchase of Greek tobacco in exchange for certain Portuguese products.

Uruguay's agreements with Brazil, Italy, and Paraguay all include tobacco.

West German agreements with many countries provide for tobacco imports in exchange for German manufactured goods. Most important of these countries are Brazil, Colombia, Greece, and Turkey.

Bilateral barter arrangements:

Egypt's barter agreements encourage tobacco imports from soft currency areas.

Compensation agreements:

France has compensation agreements with a number of countries that facilitate imports from these areas. Some of them are Argentina, Brazil, Dominican Republic, Federation of Rhodesia and Nyasaland, Greece, Turkey, and Yugoslavia.

Dollar allocations:

Finland's severe foreign exchange problems in recent years have kept commercial purchases of tobacco to a minimum.

France's system of exchange controls on dollar purchases of tobacco have severely restricted imports of U. S. leaf for many years.

India has not permitted imports of dollar tobacco since October 1957.

Spain also restricts tobacco imports through exchange controls.

A U. K. manufacturer can purchase no more than 61 percent of his tobacco requirement for home consumption from dollar areas. Canada has first chance at the dollars allocated, for its tobacco has a preferential tariff in the U. K. market. Imports from the United States decreased from an average of 213 million pounds in 1934-38 to 169 million in 1955-57, while imports from Commonwealth areas rose from about 62 million to 156 million pounds.

Import licenses:

Argentina's Central Bank has for several years granted practically no import permits for tobacco.

Egypt's licensing system controls purchases of dollar tobacco and encourages purchases from other suppliers.

Indonesia, New Zealand, and Pakistan have licensing systems that strictly control all tobacco imports.

Uruguay's importers must pay a premium to secure dollars for the purchase of tobacco.

Import quotas:

The Philippine Republic has a law, effective since July 1954, which permits tobacco imports only if a government agricultural board certifies that domestic production is not sufficient for manufacturers' requirements.

The Portuguese Government and the companies operating the tobacco monopoly agreed in 1958 that within 5 years at least 20 percent of total tobacco imports would be from Portuguese overseas territories.

Mixing regulation:

Australia has a mixing regulation under which the import duty on tobacco is reduced to the manufacturer who uses specified minimum percentage of Australian tobacco. The percentage has been increased sharply in recent years, and will amount to 22 percent for cigarette manufacture, effective July 1, 1959.

New Zealand also has a mixing regulation specifying that manufacturers use certain minimum percentages of domestic leaf. Minimum began as 20 percent (in 1941) and is now 32.5 percent.

Pakistan's sliding-scale excise tax decreases with the percentage of domestic tobacco used.

Preferential tariff:

Australia's tariff on Southern Rhodesian tobacco since 1941 has been 9 pence (8.4 U. S. cents) a pound less than on other tobaccos.

Hong Kong's duty on Commonwealth tobacco is 0.20 Hong Kong dollars (3.5 U. S. cents) lower than on other tobaccos.

Pakistan imposes no import duty on Indian tobacco.

Portugal gives a 15-percent preferential tariff on light tobacco from its overseas territories and 10 percent on dark tobacco.

U. K. duty on Commonwealth tobacco is 18.5 pence (21.5 U. S. cents) a pound less than on other tobaccos. In the 40 years this tobacco has had preferred treatment, it has increased its percentage of the U. K. market from about 6 percent (1919-23) to about 45 percent (1955-57).

Purchase agreements and contracts:

Australia guarantees to purchase annually not less than 9.7 million pounds or 6.5 percent of the Rhodesian crop, whichever is smaller.

France's program of long standing between its tobacco monopoly and overseas territories encourages production for export to France through high guaranteed prices.

The United Kingdom's long-term purchase agreement with Southern Rhodesian tobacco growers (first negotiated in 1947) has contributed greatly to increasing tobacco imports from the Rhodesias and Nyasaland from 28 million pounds prewar to 80 million in 1957. Agreement currently provides for purchases of 90 million pounds (farm weight) annually.

Trade and payments agreements:

Spain has agreements with a number of countries that cover tobacco imports.

Competitive Export Aids

Commercial agreements:

Cuba has commercial agreements covering the exportation of its tobacco to Argentina, Chile, France, Germany, Spain, and the United Kingdom.

The Dominican Republic has agreements with France and Spain which provide for imports of Dominican tobacco into those countries.

Export premium:

Turkish Government, according to recent information, pays a premium of one lira per dollar equivalent to tobacco merchants for tobacco for export from the 1957 crop (being exported September 1958-September 1959) in order to cut the cost of its tobacco in world markets and make it more competitive.

Export subsidy:

Colombia gives its tobacco exporters an export bonus in the form of an exchange differential; this has encouraged exports of dark tobaccos to Germany and France.

The Union of South Africa has an export bounty, or subsidy, which in the 1957-58 season was up to 40 percent of the minimum selling prices.

Trading arrangement:

Italy in recent years has facilitated the export of certain types of tobacco not preferred by importing countries. Its tobacco Monopoly, a government agency, has an agreement with the Swiss Cigarette Manufacturing Association covering imports of Italian tobacco into Switzerland in exchange for Swiss exports of cigarettes to Italy.

PRICES

There have been increasing complaints from tobacco importers and manufacturers, especially in Western Europe, that prices for U. S. leaf tobacco are too high when compared with those for similar tobacco produced by U. S. competitors.

Generally, the U. S. tobacco of better quality can effectively compete pricewise with the better qualities of cigarette tobaccos produced abroad. However, in medium and low-quality leaf, U. S. tobaccos are not competitively priced, and this disparity has increased during the past several years. Part of this disparity has come from U. S. manufacturers' buying more of these grades for filter-tip cigarettes. And part has come from expanded foreign production, which got some of its impetus from U. S. acreage controls and relatively high prices.

For markets where price is of paramount importance to manufacturers, this upward trend in U. S. price levels has made foreign growths more and more attractive. Foreign leaf is being substituted for U. S. tobacco in increasing quantities in such markets as Belgium, Portugal, West Germany, the Netherlands, and Norway.

The differential in export prices between U. S. flue-cured and foreign flue-cured widened considerably during 1950-57. Average U. S. export prices rose 36 percent--from 53.5 cents per pound in 1950 to 72.9 cents in 1957. Rhodesian flue-cured rose 10 percent; Canadian, 20 percent; and Indian flue-cured, from 1951 to 1957, rose 22 percent. These countries are the major competitors of the United States in world flue-cured markets.

In 1950, the average U. S. flue-cured export price was actually lower than the Rhodesian export price and 7 percent higher than the Canadian. In 1957, it was 21 percent higher than the Rhodesian and 22 percent higher than the Canadian.

A similar picture exists for Burley, the second most-important cigarette type exported from the United States. Recent sharp price increases for U. S. Burley have caused foreign manufacturers to curtail plans for its expanded use, and are encouraging production in such areas as Canada, Japan, Italy, Spain, Cuba, and Nyasaland. Between 1951 and 1957, average U. S. export prices for Burley rose from 46.9 cents per pound to 76.3 cents, an increase of 63 percent; for Canada, the increase was 10 percent; for Italy, 16 percent. Nyasaland exported Burley in 1957 at the equivalent of 53.8 U. S. cents; and Japan, at 29.7 U. S. cents per pound.

Similarly, for dark tobaccos, the average U. S. export price for Kentucky-Tennessee fire-cured types was 48.6 cents in 1957, compared with 31.0 cents for Nyasaland's fire-cured exports and 26.7 cents for Italy's exports. Export prices of U. S. dark air-cured types were more than double the export prices for similar growths produced in Colombia and the Dominican Republic.

DEVELOPMENTS IN BUILDING WORLD MARKETS

Market Surveys and Analyses

During the past year, tobacco marketing specialists went to Europe and the Far East to help promote aggressively the exports of U. S. tobacco. The specialists conferred with U. S. agricultural attaches and foreign government and trade officials in each country in order to obtain as much information as possible which could be used to develop new markets or to maintain and, if possible, expand existing markets.

Two marketing specialists undertook an on-the-spot study of market possibilities for U. S. tobacco in countries of Western Europe during May-June 1958. These specialists made an appraisal of the impact of the U. S. tobacco production and price program on the current and

TABLE 5.--Dark tobacco: Comparative export prices, selected countries, 1950-57

Kind and exporting country	1950	1951	1952	1953	1954	1955	1956	1957
	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound
Fire-cured:								
United States (Va. type).....	53.0	59.0	63.7	64.6	62.5	62.4	61.8	63.8
United States (Ky.-Tenn.).....	41.0	39.7	47.8	49.0	50.7	52.6	51.9	48.6
Nyasaland (Ky.) ¹	30.6	23.8	27.9	27.7	26.1	30.4	29.8	31.0
Italy (Ky.).....	(²)	(²)	(²)	(²)	24.5	23.5	26.5	26.7
Dark air or sun-cured:								
United States (Green River).....	44.9	27.7	46.9	30.2	35.6	43.5	34.7	38.8
United States (One Sucker).....	55.6	46.4	76.1	65.9	39.1	23.6	26.8	35.9
Nyasaland ¹	34.3	32.3	32.7	34.6	29.4	34.6	(²)	(²)
Colombia.....	10.5	11.2	12.2	12.3	11.7	11.3	(²)	15.1
Dominican Republic.....	14.8	16.3	15.7	18.7	18.1	16.9	17.2	³ 19.0

¹Federation of Rhodesias and Nyasaland since 1953. ²Not available. ³For first 8 months only.

TABLE 6.--Flue-cured tobacco: Comparative export prices selected countries, 1950-57

Year	United States	Federation of Rhodesia and Nyasaland	Canada	India
	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound
1950.....	53.5	154.5	49.8	(²)
1951.....	64.5	156.5	56.8	29.1
1952.....	63.1	159.8	58.3	34.3
1953.....	66.8	61.3	55.8	33.9
1954.....	68.9	58.3	57.3	30.2
1955.....	67.3	61.4	57.3	28.6
1956.....	66.6	50.6	58.6	29.0
1957.....	72.9	60.2	59.7	35.6

¹Southern Rhodesia. ²Not available.

TABLE 7.--Burley tobacco: Comparative export prices selected countries, 1950-57

Year	United States	Canada	Italy	Nyasaland	Japan
	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound	U.S. cents per pound
1950.....	40.5	(¹)	(¹)	(¹)	(¹)
1951.....	46.9	39.7	32.7	(¹)	(¹)
1952.....	53.9	44.9	(¹)	(¹)	(¹)
1953.....	52.2	44.2	32.8	(¹)	(¹)
1954.....	51.4	44.0	31.4	(¹)	(¹)
1955.....	55.9	43.0	35.5	42.7	(¹)
1956.....	58.7	41.6	34.2	39.7	24.3
1957.....	76.3	43.8	37.9	² 53.8	29.7

¹Not available. ²Approximately 55 percent of exports were in the form of strips at an average price of 66 cents per pound.

potential market for U. S. tobacco in that area. They found that Europeans were gratified by the curtailment of production of undesirable varieties of flue-cured tobacco during 1957. The specialists found that importers in Europe were concerned about their ability to get the desired grades of U. S. tobacco at prices which they could afford to pay. Findings of these officials were released to the tobacco trade and government officials concerned with the U. S. tobacco program.

A tobacco marketing specialist went to seven countries in Southeast Asia during the spring of 1958 for the purpose of expanding the market for U. S. tobacco. Plans were made for new market development programs in Malaya and Thailand. He checked on the progress of several tobacco market development projects and helped work out desirable changes in certain projects where needed. He attended the Osaka Trade Fair in connection with the U. S. tobacco exhibit there.

Through weekly news items, circulars, and bulletins the tobacco trade is kept informed on export opportunities throughout the world. Several market surveys have been conducted as a part of the market development program in countries where more information was needed on the potential market for U. S. tobacco. Special tobacco surveys have been completed in Spain, Italy, Japan, France, Pakistan, and Burma.

Market Information and Services

Tobacco news items in the weekly publication, Foreign Crops and Markets, numbered 312 in fiscal 1958. In addition, 6 market circulars, most prominent of which was a World Tobacco Analysis entitled "Consumer Marketing," were published during this same period. The U. S. tobacco exporters have shown great interest in special semiannual circulars which review the shipments and status of programs of tobacco involved in Title I of Public Law 480. These stories received additional distribution both in the United States and abroad as reprints in foreign and domestic tobacco trade journals. There were approximately 1,100 reprints from these FAS publications.

Four reports have appeared as lead articles in major U. S. tobacco trade journals. These articles analyzed the world tobacco situation emphasizing problems facing exports and stressing possible solutions.

Aside from the regularly scheduled foreign marketing trips abroad, numerous trips were made to the U. S. tobacco-producing areas to observe the production and marketing of the new crop. Specialists also attended trade meetings and conferences to relate their first-hand information to tobacco producers and exporters as to the up-to-date occurrences in the "world of tobacco." They participated in these meetings and in addition joined seminar groups to discuss various topics dealing with the marketing situation abroad.

Overcoming Dollar Shortages

Credit for Dollar Customers

During fiscal year 1958, \$1.7 million worth of U. S. tobacco was exported against Export-Import Bank loans. This bank will make loans to foreign countries for the purchase of U. S. tobacco. The loans are made to foreign banks or importers with the guarantee of a foreign bank.

Also, during fiscal year 1958, about 1 million pounds of tobacco were sold under CCC's export credit sales program. First sale of tobacco under this program was made in the spring of 1956. From then until June 30, 1958, about 7 million pounds were sold under provisions of this credit arrangement.

Barter

During fiscal year 1958, about 480,000 pounds of tobacco were exported to Japan under provisions of the barter program. The authority to barter CCC commodities for strategic material is contained in several legislative acts, including Title III, Public Law 480. Tobacco pledged to CCC under price support programs can be bartered for strategic material. The tobacco to be delivered by CCC to the barter contractor will be acquired by CCC from a grower cooperative association which has pledged the tobacco to CCC under the price support program.

Some recent modifications have been made in the barter program which are designed to expedite and increase barter transactions. Recent information regarding the barter program is contained in USDA releases of November 14, 1958, "Changes in Barter Program Announced" and December 8, 1958, "Tobacco Barter Announcement No. 1."

Local Currency Sales - Title I, Public Law 480

Sale of approximately \$146 million worth, or about 200 million pounds of tobacco, had been provided for under Title I of Public Law 480 as of June 30, 1958. The total includes sales through 49 agreements with 21 countries since the beginning of the Public Law 480 program in 1954-55.

Tobacco and other U. S. agricultural products are sold for foreign currencies under Title I of Public Law 480. Under agreements with friendly foreign governments, sales are made by private U. S. traders to importers or buying missions.

Since emphasis is placed on "dollar" sales, tobacco programs are undertaken with friendly foreign countries which cannot purchase their requirements of U. S. leaf due to foreign exchange problems. Tobacco is sold under the program to provide for increased usings of U. S. leaf or an increase in the stock level which would not have been possible in the absence of a P. L. 480 program.

Exports under the program have not exceeded 14 percent of total sales volume during any fiscal year since the beginning of the program. Normal marketing requirements have been well observed.

Congress authorized the extension of Public Law 480 for 18 months from June 30, 1958. It also authorized \$2.25 billion additional funds to operate the program. Agreements providing for sale of tobacco are expected to be signed during the extension period.

Foreign Aid Financing

During fiscal year 1956, tobacco was made eligible for sale as a part of triangular trade transactions under Section 402 of the Mutual Security Act. During fiscal year 1958, an agreement was signed with Austria providing for the sale of about \$1 million worth of U. S. tobacco under the program. Prior to this, about \$2.3 million worth of U. S. tobacco had been shipped to

TABLE 8.--Tobacco: Sales agreements under Title I, Public Law 480, as of June 30, 1958

Country	Estimated quantity	Value
	Million pounds	Million dollars
Austria.....	7.3	4.8
Brazil.....	.3	.6
Burma.....	4.1	3.1
Chile.....	.4	.3
China (Taiwan).....	4.0	3.4
Colombia.....	.5	.5
Ecuador.....	.8	.7
Finland.....	15.4	9.4
France.....	11.1	6.6
Iceland.....	.8	.9
India.....	6.0	6.0
Indonesia.....	25.5	15.5
Israel.....	.9	.6
Italy.....	19.3	14.9
Japan.....	9.8	7.8
Korea.....	8.5	6.7
Pakistan.....	5.8	4.9
Spain.....	15.6	11.5
Thailand.....	5.4	4.1
United Kingdom.....	52.9	38.0
Vietnam.....	7.7	5.8
Total.....	202.1	146.1

TABLE 9.--Unmanufactured tobacco: U. S. exports under Public Law 480, by types and countries of destination, from the beginning of the program, January 1955 through June 30, 1958

Country	(Declared weight)											
	Flue-cured		Burley		Dark-fired Ky.-Tenn.		Dark-fired Virginia		Maryland		Green River	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	1,000 pounds	1,000 dollars	1,000 pounds	1,000 dollars	1,000 pounds	1,000 dollars	1,000 pounds	1,000 dollars	1,000 pounds	1,000 dollars	1,000 pounds	1,000 dollars
Austria..	4,686	2,858	1,878	900	229	185	547	476			1,000	1,000
Brazil...											284	378
Burma....	2,375	1,647									121	243
Chile....	271	212	52	37	1	1						
China (Taiwan)	2,006	1,722										
Colombia ¹	33	38	21	23			2	2				
Ecuador..	272	211	148	118								
Finland..	8,741	4,982	2,093	1,190	472	140	97	43			296	127
France...	870	650	484	390	6,948	3,373	157	124				
Iceland ¹	265	273	174	181	53	9						
India....	3,312	3,187	5	5			14	11	11	12		
Indonesia	23,097	13,979	48	17	878	538						
Israel...	847	547										
Italy....	4,947	4,193	3,200	2,622	3,750	2,896						
Japan....	8,055	6,662	1,756	1,165								
Korea....	8,237	6,506	249	223								
Pakistan.	5,779	4,818										
Spain....	7,414	6,217	5,022	4,123	968	258						
Thailand.	5,441	4,047										
United Kingdom.	52,905	38,074							1,560	750	15	4
Total..	139,553	100,823	14,910	10,994	13,297	7,400	815	654	1,573	744	70	24
											296	127
											480	747
											170,994	121,513

¹The value of the leaf content of tobacco products authorized to be sold to these countries was financed under Public Law 480.

Italy and France under the program. It has been helpful in increasing exports of U. S. tobacco, and it also enables the importing country to sell manufactured goods to underdeveloped countries as required for U. S. aid programs.

Lessening Foreign Trade Barriers

Producers and exporters of U. S. leaf tobacco find themselves confronted with a variety of obstacles in attempting to sell their product in the world market place. Many of these barriers to export trade are of long standing. Most of them were used prior to World War II to limit tobacco import trade or to direct it into the desired channels. The dollar problem since the end of the war has encouraged retention and extension of them.

Continued efforts are being made, on behalf of the U. S. tobacco export trade, to obtain relaxation of the barriers facing their product abroad.

Statements and recommendations are prepared, as necessary, for use by the country committees working on position papers for the GATT negotiations. Analyses are made of the effects of the restrictions imposed on U. S. tobacco by the various countries participating in the discussions. Arguments in behalf of removal of these restrictions are presented, with statistical justification wherever necessary.

In the fall of 1958, a specialist spent 6 weeks in Europe as tobacco consultant to the U. S. delegation to GATT meetings held in Geneva in connection with the proposed tariff changes on tobacco in European Common Market countries. In his numerous conferences with prominent members of the Common Market tobacco industry, he outlined the U. S. position on the proposed 30 percent ad valorem tariff. As a result, the U. S. position is well-known abroad, and prospects appear to be improved for some lowering of the 30 percent rate.

Market Development Activities

Since inauguration of the market development program using foreign currencies the USDA, in cooperation with the U. S. tobacco trade and foreign tobacco trade groups, has undertaken 18 market development projects in 12 foreign countries. These projects are designed to help increase the consumption and, consequently, the exports of U. S. tobacco. To help develop markets for U. S. tobacco, the following types of projects have been undertaken:

Promotional and advertising programs. Promotional projects have been undertaken in Japan, France, and Thailand. These involve the use of all types of advertising media in an effort to increase the sales of the brands of tobacco products containing U. S. leaf.

A tobacco promotion project has been in operation in Japan since May 1956. It is operated jointly by the U. S. tobacco trade, FAS, and the Japanese Tobacco Monopoly and has been effective in expanding sales of Japanese brands of cigarettes containing U. S. leaf.

Some recent accomplishments achieved as a result of the project in Japan are as follows:

- (1) The estimated consumption of U. S. leaf in Japan has increased steadily since the project was undertaken. The Japanese have indicated that the promotion project has been an important factor in this increase.
- (2) The Monopoly has introduced three new brands of cigarettes containing U. S. leaf.
- (3) Several members of the Monopoly's sales staff have visited the United States to study U. S. advertising and distribution methods.
- (4) A consumer preference survey was conducted, using sample products, to determine which blend of new cigarettes should be introduced in the market. Results of this survey will be used to help make desirable changes in the promotion project.
- (5) Three extensive tobacco exhibits have been sponsored in Japan and coordinated with the promotional project.



Display material used throughout Japan to advertise American-type cigarettes containing U.S. tobacco, produced by Japanese Tobacco Monopoly. Advertisement is part of market development promotion project being conducted jointly by U.S. tobacco trade, USDA, and Japanese Tobacco Monopoly.

The market promotion projects in France and Thailand have been in operation a relatively short time but results to date have been satisfactory. A tobacco promotion project was recently undertaken in Burma.

Market surveys. Surveys in Finland, France, and Pakistan are being made to determine the potential market for U. S. tobacco and tobacco products in those countries.

The results of three others were published in 1958: "The Market Potential for U. S. Tobaccos and Tobacco Products in Spain," "Tobacco Smoking in Italy," and "Tobacco in Burma." These studies were made in cooperation with the tobacco trade and land-grant colleges in the tobacco area.

Visit of Foreign Tobacco Officials

During 1958, projects were continued providing for study of the U. S. tobacco industry by additional key officials of the tobacco trade from Austria, France, and Japan. It was the purpose of these projects to acquaint the foreign tobacco officials with U. S. methods of storage, processing, and advertising tobacco products. During their stay in the United States, these officials visited with all segments of the tobacco industry. Plans for promotional projects and the introduction of new tobacco products containing U. S. leaf were discussed with these officials.

Training. The project which provides for helping train research personnel of the Thailand Monopoly was continued during 1958. As a result of this project, the Monopoly will be more capable of solving its problems relating to storage and processing of U. S. tobacco.

Private Trade Activities. The following four major tobacco trade associations have the common goal of increasing exports of U. S. tobacco:

Tobacco Associates, Inc.
 Burley and Dark Leaf Tobacco Export Association
 Leaf Tobacco Exporters Association
 National Cigar Leaf Tobacco Association

Officials of these associations help promote exports of U. S. tobacco by such activities as (1) making on-the-spot surveys of foreign tobacco markets, (2) disseminating important market information, (3) encouraging legislation favorable to tobacco exports, and (4) helping resolve problems relating to quality, price and trade restrictions.

A large number of U. S. tobacco exporters travel extensively to foreign markets to aggressively promote sales of U. S. tobacco. These exporters work closely with FAS marketing specialists in a cooperative effort to expand sales of U. S. tobacco.

International Trade Fairs

International trade fairs continue to offer excellent tobacco promotion opportunities. These exhibits afford FAS and the U. S. tobacco trade an opportunity to emphasize the importance of using U. S. tobacco in order to make a quality product. In the past year, tobacco promotion exhibits have been displayed in Osaka, Japan, and London, England.

The Osaka exhibit, sponsored jointly by FAS, the U. S. tobacco trade, and the Japanese Tobacco Monopoly, was an educational-type display, and had as its theme "At the present as in former times tobacco is enjoyed by people all over the world." Special features of the exhibit were (1) a display of high-quality U. S. leaf in a specially designed backlighted case, (2) an illuminated map showing the areas of production in the U. S., and (3) glassed-in bar charts showing that high-quality Japanese-brand cigarettes contain U. S. tobacco. As a side attraction, a magician performed tricks with cigarettes much to the delight of the large crowds that viewed the exhibit.

In London, FAS and the U. S. tobacco trade cooperated in having an exhibit at the fair showing a scene depicting a tobacco auction. As a special feature, these same groups gave a dinner commemorating the 350th anniversary of United States and United Kingdom tobacco trade. The guest list included the leading figures of the U. K. tobacco trade. This was the first such tobacco promotional dinner and the enthusiasm shown by the participants indicated that it was a successful method to promote goodwill and friendliness in the largest export market for U. S. tobacco.



Malayan tobacco officials inspect samples of U.S. tobacco during recent visit to USDA and U.S. tobacco producing areas.



This "tobacco auction" scene was part of the U.S. tobacco exhibit at the London Food Fair. A recording of the auctioneer's chant was broadcast intermittently, giving the display a lifelike atmosphere.

RECENT PUBLICATIONS

Canadian Tobacco Production and Trade, FAS-M-29, January 1958. A 24-page summary of developments in the Canadian tobacco industry.

World Tobacco Analysis - Consumer Marketing, FAR No. 107, February 1958. A 23-page report covering the trends in methods of tobacco consumption around the world, the levels of output of tobacco products, and international trade in cigarettes.

U. S. Tobacco Exports Drop Sharply in 1957, FT-1-58, March 1958. A 14-page summary, mainly statistical, containing complete data on U. S. leaf tobacco exports in 1957, with comparisons.

Free World Tobacco Exports Larger in 1957, FT-4-58, May 1958. A 7-page report summarizing tobacco export and import trade of the free world for 1957, with comparisons.

The Position of Oriental Tobacco in World Production and Trade, FAR No. 113, October 1958. A complete analysis of the competitive position of oriental-leaf tobacco producing countries in world production and trade.

About \$146 Million Worth of Tobacco Programmed Under Title I, P. L. 480 as of June 30, 1958, FT-8-58, November 1958. A 4-page summary of tobacco sales under P. L. 480 as of June 30, 1958.

World Tobacco Production Drops in 1958, FT-9-58, December 1958. A summary of tobacco production, by types and producing countries, for 1958, with comparisons.

These publications are available upon request to the Information Division, Foreign Agricultural Service, U. S. D. A., Washington 25, D. C.

